9

LOW INCOME HOUSING TAX CREDIT (USA)

The low income housing tax credit provides an annual credit_against federal income taxes for the owners of qualified low-income housing. The amount of the credit is computed by multiplying the project's "qualified basis" by a "credit percentage."

The qualified basis for tax credit purposes includes the costs of developing the project, except for the price of the land. Nearly all "hard" and "soft' construction costs are used in the basis for calculating the tax credit.

The amount of the credit percentage is higher for development costs involving new construction or substantial rehabilitation of an existing building than for property acquisition costs. The percentage is also lower if the project is "federally subsidized."

The credit percentage for development costs in excess of the cost to acquire an existing building is set at a level intended to yield a present value equal to 70% of the basis of the low-income units over a ten-year period. In the case of federally subsidized projects, the percentage is calculated to yield a present value equal to 30% of the basis of the low-income units. Finally, at least ten years must have elapsed between the date of purchase and the later of (1) the date the building was last placed in service, or (2) the date of the most recent "nonqualified substantial improvement."

The applicable percentage for the 70% present value credit and the 30% present value credit are based on certain federal interest rates and published by the federal government every month. The eligible basis of a new or rehabilitated building in qualified high cost areas is increased by 30%.

A project must reserve either (1) 20% of its units for households at 50% of area median income or below (adjusted for family size), or (2) 40% of its units to households at 60% of area median or below. Rents in the low-income units may not exceed 30% of the applicable income ceiling - 30% of 50% or 60% of median, as applicable. The "gross rent" charged for the unit is defined as the rent paid by the tenant, including a utility allowance but excluding rent subsidies.

For tax purposes, a project must be kept as "qualified low-income housing" that meets minimum set-aside requirements for a fifteen-year compliance period, or for such longer period as may be required by the state allocating agency or agreed to by the owner. A project that fails to meet the minimum set-aside or other requirements during the compliance period is subject to recapture of a portion of the tax credit.

Each state has an annual amount of tax credits to allocate of $1.75 per capita. Allocations are made by a state housing credit agency according to policies and procedures in an adopted "allocation plan." Projects financed (at least 50%) with tax-exempt bonds that are subject to state bond volume limitations receive an "automatic" allocation of tax credits that are not calculated in a state's annual credit cap.

Robert Whittlesey 1/14/03

Federal Historic Preservation Tax Incentives
National Park Service
Excerpts on 20% Historic Tax Credit

Preservation Tax Incentives

Historic buildings are tangible links with the past. They help give a community a sense of identity, stability and orientation. The Federal government encourages the preservation of historic buildings through various means. One of these is the program of Federal tax incentives to support the rehabilitation of historic and older buildings. The Federal Historic Preservation Tax Incentives program is one of the Federal government's most successful and cost-effective community revitalization programs. The Preservation Tax Incentives reward private investment in rehabilitating historic properties such as offices, rental housing, and retail stores.

Since 1976, the National Park Service has administered the program in partnership with the Internal Revenue Service and with State Historic Preservation Officers. The tax incentives have spurred the rehabilitation of historic structures of every period, size, style and type. They have been instrumental in preserving the historic places that give cities, towns and rural areas their special character. The tax incentives for preservation attract new private investment to the historic cores of cities and towns. They also generate jobs, enhance property values, and augment revenues for State and local governments through increased property, business and income taxes. The Preservation Tax Incentives also help create moderate and low-income housing in historic buildings. Through this program, abandoned or under used schools, warehouses, factories, churches, retail stores, apartments, hotels, houses, and offices throughout the country have been restored to life in a manner that maintains their historic character. Current tax incentives for preservation, established by the Tax Reform Act of 1986 (PL 99-514; Internal Revenue Code Section 47 [formerly Section 48(g)]) include:

- 20% tax credit for the *certified rehabilitation* of *certified historic structures*.
- a 10% tax credit for the rehabilitation of *non-historic, non-residential* buildings built before 1936.

For both credits, the rehabilitation must be a *substantial* one and must involve a *depreciable* building. (These terms will be explained later.)

What Is a Tax Credit?

A tax credit differs from an income tax deduction. An income tax deduction lowers the amount of income subject to taxation. A tax credit, however, lowers the amount of tax owed. In general, a dollar of tax credit reduces the amount of income tax owed by one dollar.

- The 20% rehabilitation tax credit equals 20% of the amount spent in a *certified rehabilitation* of a *certified historic structure*.
- The 10% rehabilitation tax credit equals 10% of the amount spent to rehabilitate a *non-historic building* built before 1936.

20% Rehabilitation Tax Credit

The Federal historic preservation tax incentives program (the 20% credit) is jointly administered by the U.S. Department of the Interior and the Department of the Treasury. The National Park Service (NPS) acts on behalf of the Secretary of the Interior, in partnership with the State Historic Preservation Officer (SHPO) in each State. The Internal Revenue Service (IRS) acts on behalf of the Secretary of the Treasury. Certification requests (requests for approval for a taxpayer to receive these benefits) are made to the National Park Service through the appropriate State Historic Preservation Officer (SHPO). Comments by the SHPO on certification requests are fully considered by the NPS. However, approval of projects undertaken for the 20% tax credit is conveyed *only in writing* by duly authorized officials of the National Park Service. For a description of the roles of the NPS, the IRS and the SHPO, see "Tax Credits: Who Does What?" The 20% rehabilitation tax credit applies to any project that the Secretary of the Interior designates a *certified rehabilitation* of a *certified historic structure*. The 20% credit is available for properties rehabilitated for commercial, industrial, agricultural, or rental residential purposes, but it is not available for properties used exclusively as the owner's private residence.

For more information see Website:
http://www2.cr.nps.gov/tps/tax/brochure2.htm#Rehabilitation%20Tax%20Credit